ORDER NO. 2076

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners: Ruth Y. Goldway, Chairman;
                                               Mark Acton, Vice Chairman; and
                                               Robert G. Taub

Periodic Reporting   Docket No. RM2014-1
(Proposals Six Through Nine)

ORDER ON ANALYTICAL PRINCIPLES USED IN
PERIODIC REPORTING
(PROPOSALS SIX THROUGH NINE)

(Issued May 8, 2014)

I.   INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. § 3652.[1] Those rules require the Postal Service to obtain advance approval, in a notice and comment proceeding under 5 U.S.C. § 553, whenever it seeks to change the analytical principles that it applies in preparing its periodic reports to the Commission required by section 3652.

The Postal Service's petition, filed pursuant to 39 C.F.R. § 3050.11, requests that the Commission initiate an informal rulemaking proceeding to consider three proposals (Proposals Six through Eight) to change the analytical methods approved for use in

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[1] Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

periodic reporting.[2] The Postal Service subsequently added a fourth proposal (Proposal Nine) for consideration in this docket.[3] The Postal Service also filed a non-public library reference in support of Proposal Seven.[4]

In Order No. 1877, the Commission initiated this rulemaking proceeding, providing for the submission of comments and reply comments, and appointing a Public Representative.[5]

The Public Representative filed comments in response to Order No. 1877.[6] The Postal Service filed reply comments on December 11, 2013.[7] No other comments were filed. Two Chairman's Information Requests were issued in this docket.[8] The Postal Service filed timely responses to both information requests.[9]

Proposal Six would update the methodology for calculating the costs for Philatelic Sales and the handling costs for Stamp Fulfillment Services (SFS) to align with the

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[2] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six Through Eight), November 8, 2013 (Petition).

[3] Notice of the United States Postal Service of Revision to Add Proposal Nine to the Petition for Rulemaking—Errata, November 12, 2013 (Petition Errata).

[4] Library Reference USPS-RM2014-1/NP1, Nonpublic Version of Proposal Seven, November 8, 2013.

[5] Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals Six Through Nine), November 14, 2013 (Order No. 1877).

[6] Public Representative Comments, December 5, 2013 (Public Representative Comments). A Public Representative Motion for Late Acceptance of Comments, December 5, 2013, was concomitantly filed with the Public Representative Comments. This motion is granted.

[7] Reply Comments of the United States Postal Service, December 11, 2013 (Postal Service Reply Comments). A Motion of the United States Postal Service for Late Acceptance of Its Reply Comments, December 11, 2013, was concomitantly filed with the Postal Service Reply Comments. This motion is granted.

[8] Chairman's Information Request No. 1, December 11, 2013 (CHIR No. 1); Chairman's Information Request No. 2, January 9, 2014 (CHIR No. 2).

[9] Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, December 17, 2013 (Response to CHIR No. 1); Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 2, January 15, 2014 (Response to CHIR No. 2); *see also* Library Reference USPS-RM2014-1/NP2, Nonpublic MODS Data Requested in ChIR No. 1, Question 2(b), December 17, 2013.

product descriptions in the Mail Classification Schedule (MCS). The Commission approves this proposal.

Proposal Seven would update the methodology for developing attributable costs for the enhancements to the competitive Post Office Box service as requested by the Commission.[10] The Commission approves this proposal.

Proposal Eight would modify the Management Operating Data System (MODS) operation groups reported in Docket No. ACR2013, Library Reference USPS-FY13-23 to reflect operational changes and other cost modeling requirements. The Commission approves portions of this proposal as described in the body of this Order.

Proposal Nine would update the encirclement rules for Delivery Confirmation to reflect changes in the following products: Priority Mail (retail), Standard Post (retail), Parcel Select Lightweight, and First-Class Package Services.[11] The Commission approves this proposal.

II.   PROPOSAL SIX: CHANGES IN SFS HANDLING AND PHILATELIC SALES COST ESTIMATIONS

A.   Postal Service Proposal

The Postal Service proposes to: (1) change the methodology for estimating SFS handling costs; and (2) update the methodology for estimating the cost for Philatelic Sales.[12] These changes align cost estimates with the product description in the MCS.

In Docket No. ACR2012, the Commission expressed concern that the employee workhours used to determine Philatelic Sales costs were double counted in calculating

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[10] *See* FY 2012 Annual Compliance Determination Report, March, 28, 2013, at 163, 199 (FY 2012 ACD).

[11] In the In-Office Cost System (IOCS), encirclement is the process of assigning the cost of handling a mailpiece with an Extra Service to the Extra Service rather than to the host mailpiece.

[12] The applicable cost models were included in Docket No. ACR2012, Library Reference USPS-FY12-28, FY 2012 Special Cost Studies Workpapers Special Services (Public Portion), December 28, 2012. File StFS2012.xls developed the handling costs for SFS. The costs for Philatelic Sales were developed in file Philatelic2012.xls.

SFS handling costs. The Postal Service contends that workhours were not double counted in the SFS cost model.[13] The Postal Service explained that the appearance of double counting related to a "mismatch" between the MCS and the way costs and revenues are classified and counted. Petition, Proposal 6 at 1.

The Postal Service proposes to change the SFS handling cost methodology. It intends to exclude handling costs for Philatelic Sales from the SFS workpaper. Philatelic handling costs will only be included in the Philatelic Sales cost workpaper. *Id.*

The Postal Service proposes updating the Philatelic Sales cost model to include the costs of sales (window costs) at retail facilities based on a special study of these post office sales. About 50 percent of all Philatelic products were sold and fulfilled by SFS, and the remaining sales were fulfilled at post offices. *Id.* Under the proposal, total Philatelic Sales costs would have been approximately $1.2 million higher if window costs for Philatelic Products had been included in the FY 2012 Philatelic Products cost estimation workpaper.

B.   Participant Comments

The Public Representative supports Proposal Six stating that the proposal appears to eliminate the double-counting issue. Public Representative Comments at 6. However, he notes that the Postal Service's cost and revenue estimates are confusing and cannot be accurately verified. Furthermore, the Postal Service has not provided workpapers for this proposal. *Id.* at 3. Thus, the Public Representative included an appendix which provides an evaluation of the costing methodologies for SFS and Philatelic Sales using the cost workpapers found in Docket No. ACR2012, Library Reference USPS-FY12-28.

The Public Representative asks that the Postal Service report the number of Philatelic items sold by sales channel. *Id.* He also asks the Postal Service to provide

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[13] Petition, Proposal 6 at 1; Docket No. ACR2012, Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 10, March 1, 2013, question 2.

the spreadsheets containing the calculations of revenue shift and the addition of Window Service costs for Philatelic Sales to ensure accuracy.[14] In conclusion, the Public Representative suggests that the Commission open a rulemaking to further examine the costing methodology for SFS given the continuing cost coverage problems. *Id.* at 6.

C.   Commission Analysis

Table 1 shows the summary of the proposed handling costs of SFS. It shows that Philatelic handling costs are removed from the total handling costs at the Stamp Fulfillment Center, thus eliminating Philatelic costs from SFS costs. The Commission finds that this is an acceptable method of ensuring accurate SFS handling costs.

Table 1
SFS Handling Summary—Proposed Method FY 2013

Description	Costs ($)
Handling Direct Labor Costs	2,147,226
Handling Labor Costs with Miscellaneous Factor	2,834,476
Handling Total Costs	5,334,900
Handling (Philatelic Products)	275,796
Total Handling Costs (without Philatelic Products)	5,059,104

Source: derived from Docket No. ACR2013, Library Reference USPS-FY13-28.

Table 2 shows the costs of Philatelic service under the proposed costing methodology. A retail cost study conducted by the Postal Service estimated that the unit cost of Philatelic Sales at the retail unit is $0.61 and after adding the window service piggyback factor of 1.537, the estimated unit cost rises to $0.93 ($0.61 x 1.537).

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[14] *Id.* at 6-7. Even though the proposal did not address SFS and Philatelic revenues, the Public Representative noted that Philatelic revenues of $356 thousand were shifted from SFS to Philatelic products. He also said that the FY 2012 Cost and Revenue Analysis (CRA) was the only source of revenue data he could locate, and that without any other source of information he could not comment further on the "proposed" new revenue distribution. *Id.* at 5.

Petition, Proposal 6 at 1. Retail Philatelic Sales involved almost 1.3 million transactions, adding a retail cost of $1.2 million to the costs determined under the previous methodology.

Table 2
SFS Philatelic Products Summary—FY 2013

Description	Costs ($)
Finance and Admin	78,982
Customer Relations	479,733
Computer Support	10,199
Operations	3,395,727
Shipping	1,222,592
Retail	1,208,434
Total	6,395,667

Source: Docket No. ACR2013, Library Reference USPS-FY13-28.

Excluding the handling costs of Philatelic Products improves the accuracy of SFS costs and eliminates concerns about double-counting of the handling costs. It also accomplishes the primary objective of aligning the costs of the products with the MCS. Furthermore, the addition of the costs of retail sales of Philatelic Products more accurately reflects the actual costs of Philatelic Products. For these reasons, the Commission approves this proposal.

III.   PROPOSAL SEVEN: CHANGE IN ATTRIBUTABLE COST FOR COMPETITIVE POST OFFICE BOX SERVICE
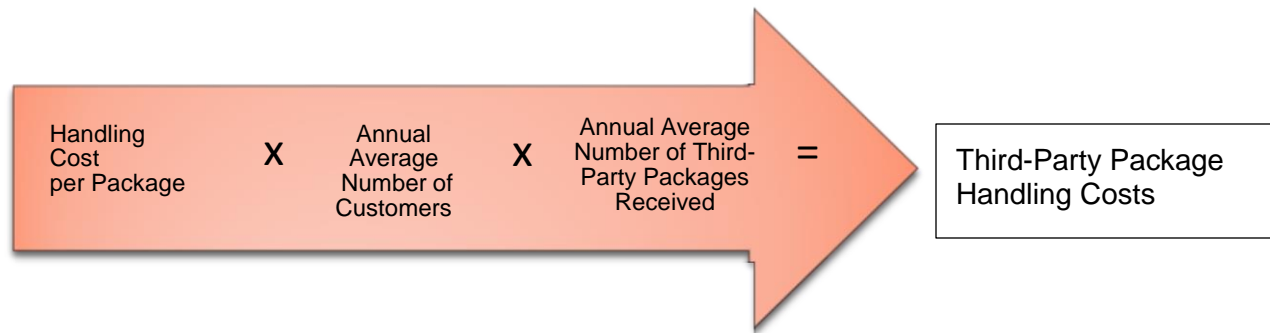
   A.   Postal Service Proposal

Customers at some competitive Post Office Box service locations have the option to use the post office street address and a "#" designation, in lieu of a "P.O. Box" designation, before the addressee's box number. Customers who choose to use this designation also have the option of receiving packages from private carriers at the

customer's Post Office Box address. *See* MCS § 2640.1(g). The Postal Service incurs: (1) handling costs for accepting these packages;[15] and (2) costs for electronically notifying the customer that the package is available.[16] These costs must be reflected in the attributable costs of competitive Post Office Box service.

In Proposal Seven, the Postal Service proposes to update its methodology for estimating competitive Post Office Box service costs, which requires reassessing: (1) third-party package handling costs; and (2) technology costs that allow customers to receive Real Mail Notification.

Handling costs. The Postal Service calculates the cost of handling third-party packages using the following formula:

| Handling Cost per Package | X | Annual Average Number of Customers | X | Annual Average Number of Third-Party Packages Received | = | Third-Party Package Handling Costs |

Source: Petition, Proposal 7 at 1.

The Postal Service proposes to update the calculation for handling third-party packages using a more current estimate of the average number of third-party parcels per customer. During the week of June 3 through June 7, 2013, the Postal Service collected data on the number of third-party carrier packages received. Based on the number of packages received, the Postal Service derived an updated annual average number of third-party packages received. The updated figure was developed using a

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[15] In Docket No. ACR2012, the Postal Service informed the Commission that it intended to update handling costs for third party packages.

[16] In Docket No. ACR2012, the Commission found that the Postal Service had not adequately explained how it developed the cost of electronic notification, and directed the Postal Service to develop a methodology that adequately estimates the attributable cost for this service. FY 2012 ACD at 163.

random sample of 200[17] out of a total of 4,968 post offices that had at least one competitive Post Office Box service street-addressing customer.[18] The collected data represents about 11 percent of the total post office boxes with at least one customer using the competitive Post Office Box service street addressing enhancement. The updated average number of packages per customer per year has a coefficient of variation of 10 percent. *Id.* at 2, n.2.

Information Technology (IT) costs. In the FY 2012 ACD, the Commission directed the Postal Service to provide detailed information on how it calculates IT costs. In Docket No. CP2013-3, the Postal Service introduced a costing methodology that it follows in Proposal Seven. IT costs are comprised of:

- time spent by contractors maintaining the website and software;
- hardware costs; and
- miscellaneous contractor costs and software costs.

Id. at 2.

Initially, the Postal Service anticipated using finance numbers to track applicable IT costs. However, it found that IT costs were relatively small in comparison to total costs. Thus, the Postal Service determined that tracking IT costs using this approach was impractical.

The Postal Service proposes the following approach. To estimate the cost of maintaining the website, the Postal Service obtained an estimate of the amount of time contractors spent on this activity from the engineering department. Using the applicable contract hourly wage, time spent was converted to dollars. Hardware cost reflects the use of two Hewlett Packard 7620 Blade computers. The Postal Service calculated the cost of the computers by determining the original purchase price of the computers and

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[17] 4.03 percent of total offices were selected.

[18] Petition, Proposal 7 at 2.

subtracting depreciation based on the age of the computers. Website and software development costs represent payments to a contractor for these services. Petition, Proposal 7 at 4; Response to CHIR No. 2, question 1.

B.   Participant Comments

The Public Representative supports Proposal Seven, stating that the new sampled estimate "is a clear improvement on the previous estimate of Annual Average Number of Third-Party Packages Received per Customer." Public Representative Comments at 8. However, the Public Representative notes the high coefficient of variation of the volume estimate, and questions whether a one-week survey is sufficient to accurately assess the volume. He also notes the Postal Service has not provided underlying data; thus, the Public Representative was unable to confirm the Postal Service's calculations. *Id.*

C.   Commission Analysis

For the reason discussed below, the Commission approves Proposal Seven. The analysis addresses the two components of the costing methodology: (1) handling costs; and (2) technology costs.

The key factor in the proposed update of handling costs is estimating the number of third-party parcels per customer. The Postal Service used a probability sample to facilitate this update and conducted its collection of sample data during a one-week period.

The Public Representative contends that an estimate based on 11 percent of the competitive post office boxes may be insufficient and that further work may be necessary to lower the coefficient of variation. However, that is not shown to be the case on the record and there are mitigating circumstances that affect the level of attainable precision.

Sample size is generally determined by balancing the desired degree of precision with the cost of attaining that precision. The Commission finds this estimating procedure is an improvement over the previous method regardless of the high coefficient of variation. Further, the number of sampled data points substantially exceeds the number underlying the current method and this estimate is more current. Therefore, the updated input to the handling cost methodology is an improvement over the current method.[19]

In the FY 2012 ACD, the Commission directed the Postal Service to provide detailed information on how it calculated IT costs. There is limited information available regarding the development of costs for hardware.[20] Software costs are taken directly from the underlying contract information. To determine the cost of maintaining the website, the Postal Service measured the amount of contractor time and multiplied the resulting hours by the contract hourly wage rate. The Postal Service's approach to cost development is reasonable given its limited purpose, and has been used elsewhere to provide costs.[21]

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[19] The Postal Service's proposed methodology for determining the costs for handling third-party packages using street addressing appears to be a reasonable alternative until the Postal Service's Product Tracking System (PTS) is updated and can read third-party labels. In Response to CHIR No. 1, question 1, the Postal Service states that its PTS can read some third-party labels, but not all of them. The Postal Service is investigating the changes required to update the PTS so that it can read third-party tracking barcodes. According to the Postal Service, the review will not occur until sometime next year.

[20] The two computer servers were acquired from excess equipment, and the cost estimate (previously provided under seal) was determined from the value of two Hewlett Packard 7620 Blade computers.

[21] See, e.g., the development of attributable costs for Restricted Delivery in Docket No. ACR2013, Library Reference USPS-FY13-28, file: Restricted Delivery2013.xlsx.

IV.   PROPOSAL EIGHT: MODIFICATION OF MODS OPERATION GROUPS TO
       REFLECT OPERATIONAL CHANGES AND OTHER MODELING
       REQUIREMENTS

       A.   Postal Service Proposal

The Postal Service proposes to modify certain MODS productivity operation
groups to reflect operational changes and other cost modeling requirements. Petition,
Proposal 8 at 1. MODS productivity operation group data are used as inputs in a
number of Postal Service worksharing cost avoidance models. The Postal Service
proposes to consolidate some MODS operation productivity groups, discontinue others,
and add two new ones, while continuing to use the methods from Docket No. ACR2012,
Library Reference USPS-FY12-23 to calculate productivities. Petition, Proposal 8 at 2.
The Postal Service proposes 12 changes that can be consolidated into 7 changes, as
shown in the table below along with the brief Postal Service rationale.

Table 3
Overview of Postal Service Proposal Eight Changes

Proposed Changes to MODS Operation[*] Groups for Productivity Calculations	Postal Service Rationale
Consolidate Within UFSM 1000 Incoming and Outgoing Operation Groups	Limited MODS data in FY2012 and some unstable productivities
Consolidate Within Manual Letters Incoming and Outgoing Operation Groups	Facility consolidations may contribute to future instability of manual productivities
Consolidate Within Manual Flats Incoming and Outgoing Operation Groups	Facility consolidations may contribute to future instability of manual productivities
Add Incoming and Outgoing Tray Sorting Groups	Will allow a sizeable cost pool to be explicitly modeled
Discontinue LIPS Outgoing Group	MODS operation codes discontinued
Discontinue ISS and OSS Return to Sender Groups	Workhours and workloads have been de minimis and erratic
Discontinue Manual Letters, Incoming Secondary Group	Not used in the letter mail flow models

* Operation group acronyms are defined as: UFSM-Upgraded Flats Sorting Machine, LIPS-Linear
Integrated Parcel Sorter, ISS-Input Sub-System, and OSS-Output Sub-System.
Source: Petition, Proposal 8 at 1.

The Postal Service proposes to consolidate incoming and outgoing operation groups within the UFSM 1000, manual letters and manual flats operation groups for productivity calculations because of declining workloads. *Id.* at 2. The Postal Service claims that the limited amount of MODS data for the UFSM 1000 in FY 2012 led to unstable productivity estimates. Therefore, it proposes to consolidate all outgoing UFSM 1000 operation groups into one outgoing operation group, and all incoming UFSM 1000 operation groups into one incoming operation group. *Id.* It reasons that by consolidating the UFSM 1000 groups into a larger incoming and outgoing operation group, the overall number of MODS observations used to estimate the UFSM 1000 incoming and outgoing productivities will increase. It states that these new grouped operations' estimates will produce more stable results as the UFSM 1000 machinery is further phased out. Response to CHIR No. 1, question 3.

The Postal Service also proposes to consolidate incoming and outgoing operation groups within manual letters and flats due to the absence of direct piece counts. Petition, Proposal 8 at 2. The Postal Service contends that productivity estimates for small manual operation groups are not as stable as other manual operation groups, and consolidating these groups will make the productivity estimates more stable. *Id.* at 3. The Postal Service is also concerned that future facility consolidations may contribute to the instability of the manual productivities, and believes that consolidating groups within manual letters and manual flats now would lower the risk of future productivity shocks to cost estimates. *Id.*

The Postal Service also proposes to introduce a new incoming and outgoing tray sorting operational productivity group. Automated tray sorting accounted for over six million workhours in FY 2012. *Id.* The Postal Service believes that there are sufficient observations to produce reliable productivity estimates. *Id.* The Postal Service has not explained which avoided cost models will incorporate the two new tray sorting operational productivity estimates. *See* Response to CHIR No. 1, question 5.

As a result of Proposal Eight, some proposed consolidated operational group productivities changed by as much as 1,499 pieces per hour. *See* Petition, Proposal 8 at 3-4. The Postal Service reports that the largest impact of Proposal Eight is on the modeled unit costs for non-machinable categories and machinable/automation rate categories due to a change in the Cost and Revenue Analysis (CRA) adjustment factor. *Id.* at 4. While the Postal Service did not summarize these changes, it did file the proposed models with its Petition.

The Postal Service proposes to discontinue the LIPS outgoing group, the ISS and OSS return to sender groups, and the manual letters incoming secondary group. It proposes to discontinue the LIPS outgoing group because the underlying three-digit MODS operations were discontinued in FY 2012. *Id.* at 2. The Postal Service proposes discontinuing the ISS and OSS return to sender groups and the manual letters incoming secondary groups because the productivities are no longer used in the cost avoidance models. *Id.* at 2-3.

B.   Participant Comments

1.   Public Representative

The Public Representative generally supports acceptance of Proposal Eight. Although for the consolidation of incoming and outgoing operation groups within manual letters and flats, he suggests further investigation may be necessary. Public Representative Comments at 15.

Consolidate UFSM 1000 groups. The Public Representative suggests the Commission approve the proposal to consolidate UFSM 1000 groups. *Id.* at 9-10. He contends the consolidation of the operations is reasonable because the facilities still using UFSMs appear to have stopped using the incoming primary MODS code. He also notes there was a substantial variation in productivities between operations in FY 2012, ranging from 19 to 1,857 pieces per hour. *Id.* at 10.

Discontinuance of LIPS outgoing group, and ISS and OSS return to sender groups. The Public Representative supports the discontinuance of the LIPS outgoing group and the ISS and OSS return to sender groups because the codes/productivities are no longer used. *Id.* at 10.

Consolidate incoming and outgoing operation groups within manual letters and manual flats. The Public Representative suggests that the Postal Service further analyze the consolidation of incoming and outgoing operation groups within manual letters and manual flats before implementation of the proposal. *Id.* at 13. He is not persuaded by the Postal Service's argument in favor of consolidating these operation groups given the large number of MODS workhours. In addition, he reasons that since the piece counts for manual operations are a computed number, the Postal Service could address anomalous productivities by "examining the underlying data and correcting errors in the volume calculation spreadsheets." *Id.* at 12.

The Public Representative contends that the productivity for the proposed consolidated Manual Letters Outgoing operation group is substantially less than the current disaggregated value of the Manual Letters Secondary Outgoing operation group. He states that the Postal Service has not provided empirical evidence that the productivity (of the manual letters outgoing secondary operation, relative to other manual operations) has been historically overstated. He acknowledges that due to the process for estimating processed volume and calculating manual productivities, it is possible that the volume and productivity have been historically overstated. *Id.* at 13.

Discontinue manual letters incoming secondary group. The Public Representative believes it reasonable to remove the manual letters incoming secondary group productivity from Docket No. ACR2012, Library Reference USPS-FY12-23 because the productivity is no longer used in the letter avoided cost models. *Id.* at 14. However, the Public Representative notes that there are high workhours and low volume in the manual letters incoming secondary operation, which could be a result of

misclocking. *Id.; see infra* footnote 34. Therefore, the Public Representative suggests that the Postal Service report on the accuracy of the data. *Id.*

Adding tray sorting groups. The Public Representative supports the addition of the incoming and outgoing tray sorting productivities to Docket No. ACR2012, Library Reference USPS-FY12-23. He notes that the new productivity estimate could be used to improve the letter avoided cost models. *Id.*

2.   Postal Service Reply Comments

The Postal Service asserts that examining the data as the Public Representative suggests would be a complex effort and that there is no direct or indirect basis for a correction. Further, it contends, corrections simple enough to be implemented in a spreadsheet "would likely end up reducing productivity differentials by scheme, and thus effectively implementing the Postal Service's proposed approach by other means." Postal Service Reply Comments at 2.

The Postal Service agrees with the Public Representative that manual letter and flat productivities merit further investigation given the inherent limitations of the imputation of the processing volumes. *Id.* at 3. However, it believes the Commission should accept Proposal Eight in its entirety, because the current methodology is not appropriate to retain in the interim. *Id.* at 4. The Postal Service notes that a gap between the productivities for outgoing primary and secondary is not new and contends it has widened anomalously under the current volume imputation method. *Id.* at 3.

C.   Commission Analysis

The Commission approves the following MODS operation group changes within Proposal Eight: (1) the consolidation of UFSM 1000 incoming and outgoing groups; (2) the addition of tray sorting groups and the discontinuance of the LIPS outgoing; (3) ISS and OSS return to sender; and (4) manual letters incoming secondary operation groups. The Commission does not approve the consolidation of incoming and outgoing

operation groups within manual letters and flats. The approved proposals are discussed first, followed by a more detailed evaluation discussing the proposals not approved.

   LIPS, ISS, OSS, and Manual Letters Incoming Secondary. The Commission approves the discontinuance of the LIPS outgoing operation groups, the ISS and OSS return to sender operation groups, and the manual letters incoming secondary operation group.[22] The LIPS outgoing group underlying operations (MODS operation code 254-LIPS-Outgoing Pref and 255-LIPS Outgoing Standard) were discontinued in FY 2012 and the Postal Service reports there will not be data for the operation group in FY 2013. The ISS and OSS Return to Sender groups comprise very few workhours and the Postal Service reports that the ISS/OSS Return to Sender groups are not used in the letter mail flow models. No party has proposed retention of these data.

   The Public Representative notes that in FY 2012 there was a large number of workhours[23] recorded in the Manual Letters Incoming Secondary operation group for a productivity measure that is no longer used in the letter flow models. He also observes that the corresponding piece count is low and that the combination of high workhours and low volume suggests misclocking. The Public Representative suggests that the Commission request additional information on the accuracy of the reported data and investigate persistent workhours. Public Representative Comments at 13-15. The Commission agrees with the Public Representative that the Postal Service should investigate workhours that appear to be misclocked workhours and reduce workhours

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   [22] The manual letters incoming secondary operation group productivity ratio is no longer used in the letter cost models. The Commission approved reducing the manual plant carrier route finalization to zero since the Postal Service reported that only plants that house delivery units have manual incoming secondary operations. Docket No. RM2011-5, Order No. 741, Order Concerning Analytical Principles for Periodic Reporting (Proposal Nine), June 3, 2011, at 10.

   [23] The Public Representative Comments at 13, (noting 1,174,362 workhours). The unscreened MODS data show that there were actually 1,421,166 workhours logged prior to the productivity screening/elimination of workhour values without accompanying volume. *See* Docket No. ACR2012, Library Reference USPS-FY12-23, YRscrub2012.xlsx, worksheets: 'Yr-scrub' and "Table."

clocked into TACS default operation codes.[24] Further review of the FY 2012 IOCS data[25] suggests that possibly over a third of the sampled employees clocked into the manual letters incoming secondary operations were working in other manual letter operations.[26] This suggests that workhours being misclocked into the manual letters incoming secondary MODS operation codes may be underreported in other manual letter cost model operation groups.

Although the Commission approves the Postal Service's proposal to eliminate the Manual Letters Incoming Secondary operation group from inclusion in the Annual Compliance Report, Library Reference 23, it should continue to reduce the use of default workhours and explain any continuing large numbers of workhours logged to this operation group in the MODS facilities.

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[24] The Manual Letters Incoming Secondary operation group also contains default workhours from an operation code that is used by the TACS (time-keeping system) when an employee has not been assigned a base operation number.

[25] Unweighted IOCS data provided in Docket No. ACR2012, Library Reference USPS-FY12-37. IOCS Selection Criteria: Q18A03 MODS Operation Nos. =160-Manual LTR incoming secondary, or 168-Manual LTR-incoming box sect dist, or 169-Manual LTR Case-Box Final Dist, Q18A05-Status=A-working (on the clock), Q18B='E'-Manual Distribution Operation (Mailpiece Distribution Operation Only), Q18D01-Primary Type of Manual Distribution='D'-Letter, percent based on unweighted sampled employee counts for identified Manual Scheme in Q18D02. MODS plants were selected (F1='1X' and f264 (CAG) ='A').

[26] The IOCS data collector coded their activity as working in the incoming primary or outgoing mail schemes. This is inconsistent with the MODS operation code (incoming secondary mail scheme) logged into the timekeeping system.

UFSM 1000 Incoming and Outgoing operation groups. The Commission approves the proposed consolidation of the UFSM 1000 groups. Due to the very limited amount of volume that flows to the UFSM 1000 in the engineering cost models, this proposed change does not appear to have any impact on the flats unit costs.[27] The Commission agrees with the Public Representative's assessment that a few very low volume and workload UFSM 1000 operations appear to be driving the need to consolidate these groups. Public Representative Comments at 9, 15. Despite the Public Representative's approval, he notes that the accuracy of the calculation should be ensured.[28] *Id.* at 15.

The different results obtained by the Public Representative and the Postal Service are due to the aggregation and screening methodology employed by the Postal Service.[29] The Commission is satisfied that the calculation is consistent with the Postal Service's stated current methodology.

Tray Sorting Groups. The Commission approves the Postal Service's request to calculate productivities for tray sorting groups because it reflects current operations and should lead to a more accurate calculation of avoidable cost when incorporated into the cost model. The Commission also finds that the Postal Service's calculation of the productivities for tray sortation outgoing and tray sortation incoming were in accordance

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[27] The Commission evaluated the impact of the consolidated versus the disaggregated UFSM 1000 productivity values in the flats avoided cost models. A range of plausible UFSM 1000 productivity values were substituted as inputs to test and verify the impact of accepting the proposal. Both the consolidated and disaggregated UFSM 1000 productivity values accuracy are questionable because of the variation in the values from year to year and the proportion of apparent errors in the underlying MODS data.

[28] "In reviewing the UFSM spreadsheets, the Public Representative was unable to replicate the Incoming and Outgoing Productivity estimates of the Postal Service." Public Representative Comments at 9, n.12.

[29] The Postal Service's MODS screening methodology is included annually in its ACR, Library Reference 23 filing in the Programs folder in the 'modsprod.f' and 'YR_scrub.tsp' files.

with the current Annual Compliance Report, Library Reference 23 methodology for MODS facilities.[30]

    Manual Letters and Flats – Incoming and Outgoing Operation Groups. The Commission does not approve the Postal Service's request to consolidate incoming and outgoing operation groups within manual letters and manual flats. The relatively rapid change in the scrubbed productivity ratios between FY 2010 and FY 2013 shown in Table 4 suggests that factors other than facility consolidations and not weighing the mail may be directly influencing the accuracy of the underlying data. Most of the incoming and outgoing operation groups within manual letters and manual flats productivities increased substantially before the Postal Service made a number of mail processing facility consolidations.[31] However, the incoming secondary flats productivity decreased by over 60 percent (from 469 pieces per hour to 180 pieces per hour) between FY 2010 and FY 2013.

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[30] The MODS productivity data methodology is documented annually in the Postal Service's ACR filing: Docket No. ACR2013, Library Reference USPS-FY13-23, file: Preface.pdf. In addition to the MODS facilities workhours, there were also nearly 1.2 million tray sorting workhours for the Network Distribution Center facilities in FY 2013. *See* Docket No. ACR2013, Library Reference USPS-FY13-7, Excel Workbooks Part 1.

[31] In the first phase of the facility consolidations, up to 140 consolidations were planned through February 2013. Another 89 were scheduled to begin in February of 2014. However, the Postal Service has delayed this second phase of mail processing closures. *See http://about.usps.com/news/ national-releases/2012/pr-058.htm; https://www.federalregister.gov/articles/2012/05/25/2012-12564/revised-service-standards-for-market-dominant-mail-products; http://www.govexec.com/ management/2014/01/postal-service-delays-new-wave-mail-processing-closures/77531/; https://www.federalregister.gov/articles/2014/01/24/2014-01382/revised-service-standards-for-market-dominant-mail-products-postponement-of-implementation-date.*

Table 4
Manual Letters and Flats
Scrubbed Productivity Ratios, FYs 2007-2013[32]

Current Operation Group*	Fiscal Year							% Change	Proposal Eight Consolidation
	2007	2008	2009	2010	2011	2012	2013	FY2010-FY2013	2013
Manual Letters Outgoing				FY 2010-FY 2013				Percent Change	Manual LTRS Out
'g14'-Primary	467	599	449	489	731	663	696	+42.3	740
'g15'- Secondary	633	770	626	665	980	1,009	1,130	+69.9	
Manual Letters Incoming				FY 2010-FY 2013				Percent Change	Manual LTRS In
'g16'- MMP	571	435	569	723	1,087	1,060	1,202	+66.3	1,116
'g17'-SCF/Primary	619	531	611	707	1,019	1,005	1,088	+53.9	
Manual Flats Outgoing				FY 2010-FY 2013				Percent Change	Manual FLTS Out
'g57'-Primary	443	372	341	316	550	554	603	+90.8	610
'g58'-Secondary	375	318	342	319	508	530	538	+68.7	
Manual Flats Incoming				FY 2010-FY 2013				Percent Change	Manual FLTS In
'g59'-MMP	406	379	358	363	676	662	762	+109.9	521
'g60'-SCF	451	363	348	354	523	507	564	+59.3	
'g61'-Primary	392	325	280	296	503	517	502	+69.6	
'g62'- Secondary	482	388	411	469	621	365	180	-61.6	

* 'gnumber' in front of the current operation group name corresponds to the numbered groups used in the ACR, Library Reference 23. The current operation group productivities directly match the mail flow model and cost model inputs used in the mail processing avoided cost models.
Source: Scrubbed productivity ratios were provided to the Commission in Docket Nos. ACR2007-ACR2013, USPS-FY07-23 and USPS-FY13-23, in YRscrub2007.xls-YRscrub2013.xlsx files. The 2013 Proposal Eight scrubbed productivity ratios were provided in the Response to CHIR No. 1, question 2(a).

The Postal Service states that "Measured manual letter and flat productivities generally increased from FY 2008-FY 2011 and since that time have been relatively

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[32] MODS observations in the input data for most MODS operation codes are first aggregated by facility, month, and operation group. The "scrubbing" involves a series of steps: First observations with TPH greater than TPF have TPF set equal to TPH. Then, observations with zero TPF or zero workhours are eliminated as erroneous. Finally, observations in the top and bottom one percent tails of the productivity distribution are eliminated as outliers. The productivity is the sum of the screened TPF divided by the sum of the screened workhours. *See* Docket No. ACR2012, Library Reference USPS-FY12-23, file: Preface.pdf at 8.

stable for larger manual operation groups." Petition, Proposal 8 at 2. Overall, it appears large changes to the productivity values occurred prior to the Postal Service's facility consolidations and that the productivities were not stable during this time period. Rather, between FY 2008 and FY 2011, relatively large changes occurred in all productivities after FY 2010 for both large and small manual letter and flats operation groups.

The FY 2013 MODS data suggest there are problems with the estimated and/or credited volumes for some current operation groups. For example, in FY 2013, because the manual flats incoming secondary group's aggregated facility-monthly workhours had no accompanying volume credited/recorded for the entire month, a large number of workhours (~100,000) were eliminated from the productivity ratio calculation.[33] As shown in Table 5, over a period of three years, the FY 2013 workhours for the manual flats incoming secondary group increased by 80,000 despite volumes decreasing in FY 2013 by over half the amount in FY 2010.

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[33] This would appear to be a problem with the manual volumes estimated and/or the volumes automatically credited to the facilities.

Table 5
Manual Flats Incoming Secondary Operation Group, FY 2010 and FY 2013

'g62'* Manual Flats Incoming Secondary	FY 2010		FY 2013	
	Volume (000)	Workhours	Volume (000)	Workhours
Raw Values	177,085	360,346	83,337	526,250
Scrubbed	162,553	346,303	77,196	428,542
Scrubbed Productivity Ratio	(162,553,000/346,303) **469 TPF/per workhour**		(77,196,000/428,542) **180 TPF/per workhour**	

Source: Docket No. ACR2010, Library Reference USPS-FY10-23, YRscrub2010.xls; Docket No. ACR2013, Library Reference USPS-FY13-23, YRscrub2013.xlsx. * 'gnumber' in front of the current operation group name corresponds to the numbered group used in the ACR, Library Reference 23.

A portion of the FY 2013 MODS daily data shows credited volumes without a corresponding workhours measure, and another portion shows logged daily workhours without a corresponding volume measure.[34] The current Library Reference 23 methodology for most operation groups is to aggregate the daily MODS data to the facility, month, and operation group prior to screening for the productivity calculation.[35] There is no certainty that the proposed consolidations will cancel out or correct errors in the underlying data.

According to the MODS Handbook, MODS facilities are surveyed annually to determine the percentage of automation volume that flows to manual primary operations and are subject to semi-annual (or sooner) density tests to determine the percentage of

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[34] The Postal Service had provided the FY 2013 MODS data in Response to CHIR No. 1, question 2(a), filed under seal as USPS-RM2014-1/NP2, December 11, 2013. Past USPS OIG reports described these generally as MODS errors primarily due to either misclocking (volumes recorded without workhours, employee is clocked into another operation) and auto-credit (workhours recorded without a volume measure). *See* USPS OIG "Follow-up Audit of the Management Operating Data System," CRR-AR-09-004, April 14, 2009, available at *http://www.uspsoig.gov/sites/default/files/document-library-files/2013/CRR-AR-09-004.pdf.*

[35] For the outgoing letters BCS Secondary operation group, the Postal Service screens at the operation code level prior to aggregating to the operation group level for some MODS codes that contain default workhours. *See* the "MODS.f" program in Docket No. ACR2012, USPS-FY12-23.

manual operations that flow to other manual operations (downflow).[36] As facilities consolidate, it appears that the manual volumes that flow from automated operations to manual operations, and the subsequent manual volumes flowing to other manual operations, can be updated and corrected based on updated facility surveys and density tests.

The Postal Service contends that the current methodology may not be appropriate to retain for the manual letter and flat productivities. However, it is not clear whether the proposed consolidated methodology alone, for all the outgoing and incoming operation groups within manual letters and flats, is more accurate. For some values, the new proposed consolidated productivity value is unlike those used in the past. In addition, the introduction of all consolidated productivity values in the Proposal Eight revised avoided cost models[37] had the net effect of reducing the overall ability of flats modeled[38] costs to reflect the totality of flats CRA mail processing attributable costs.[39] Although the Postal Service asserts that consolidating the productivity data will make it more stable since "facility consolidations may contribute to instability of the

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[36] MODS Handbook M-32, March 2009, at 17 (MODS Handbook).

[37] The Postal Service filed FY 2013 ACR workshare cost avoidance models with and without the Proposal Eight operation group changes.

[38] Modeled costs are used to deaverage the reported CRA mail processing attributable costs by the workshare categories that comprise flats. The weighted average of the decomposed processing costs should equal the CRA attributable cost. Generally, the modeled costs have been found to understate or overstate the reported CRA costs to varying degrees. Using the proposed methodology, the difference between the weighted decomposed model costs and the CRA costs increases. This is an undesirable outcome.

[39] The FY 2013 First-Class Mail Flats CRA adjustment factor increased from 2.578 to 3.406, the Standard Mail Flats CRA adjustment factor increased from 1.894 to 2.193 and the Periodicals Flats CRA adjustment factor increased from 1.0374 to 1.1570. The CRA adjustment factor is used to align modeled costs with CRA mail processing costs. *See* the "CRA ADJ UNIT COSTS" worksheets in USPS-FY13-11.FCM.ACR.PRC.xlsx, USPS-FY13.11.FCM.ACR.PROP8.xlsx, USPS-FY13-11.STD.ACR.PRC.xlsx, USPS-FY13-11.STD.ACR.PROP8.xlsx; "CRA Flats" worksheets in USPS-FY13 11.PER_OC.ACR.PRC.xlsx and USPS-FY13-11.PER_OC.ACR.PRC.xlsx.

manual productivities,"[40] whether the resulting consolidated productivity values would be more accurate is uncertain.[41]

While consolidating these MODS operational data may result in more stable productivity estimates, the Postal Service has not demonstrated that its proposed consolidations will result in more accurate costs. Since both the primary and secondary downflow manual volumes are based on data measured at the facility, it is not apparent why the proposed consolidated operation groups would be more accurate than the current disaggregated operation groups.[42] For manual letter and flat volumes, the outgoing primary volume is based on a percentage of the automated totals and the outgoing secondary volume is based on a density test of mail downflows.[43]

The Public Representative highlights the substantial impact acceptance of Proposal Eight manual letter changes could have on some avoided costs for letter mail. He notes that: "In the Letter mail flow models, all nonautomation nonmachinable mail is first processed in the manual outgoing secondary operation." Public Representative Comments at 12. The Commission cannot assume that combining the outgoing primary and secondary volumes will yield correct total volume figures since the facility survey and density downflow percentages measure different volumes (and may not necessarily cancel errors made in one or the other volume estimate when combined).

Although, the Postal Service in response to the Public Representative, states that there is no direct or indirect basis for a correction to the data, MODS observations that exceed manual capabilities can be identified. The widening gap between outgoing

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[40] Petition, Proposal 8 at 3.

[41] A number of unit costs changed to a large extent when the proposed new consolidated productivities were introduced into the existing avoided cost models. The avoided cost model calculations can be very sensitive to value changes in the productivity values.

[42] MODS facilities are required to conduct an annual survey to determine the percentage of automated mail that flows to manual operations. Semi-annual (or sooner) density tests are also required to determine the percent downflow to other manual operations. MODS Handbook at 13, 17.

[43] *See* MODS Handbook, Chapter 3-Volume Reporting.

primary and outgoing secondary manual letters may also be due, in part, to values that exceed maximum capabilities that currently pass the screening methodology.

If the Postal Service believes that some MODS data are not accurate, then additional quality assurance measures may be appropriate in an effort to resolve the underlying data issues.[44] The MODS daily volume and workhours missing an accompanying measure shown in Library Reference PRC-RM2014-1/NP1, file MODSgroups.xlsx, worksheet MNL LTRS FLTSMiss Workhours-Vol, also raise the question of whether MODS errors are being eliminated and corrected at the MODS facilities. According to the MODS Handbook, changes in mail flow due to facility consolidations can be updated and corrected.

Given the recent postponement of the second phase of facility consolidations, refined planning based on the Postal Services experience with Phase I facility consolidations may mitigate the impact of future system shocks. By ensuring that mail flow programs are current and complete, and employees are clocked into the correct MODS operation, the Postal Service may be able to improve both the accuracy and the stability of the productivities of the current disaggregated operation groups within outgoing and incoming manual letters and flats. In some cases, the Postal Service may want to consider other screening procedures than those in Library Reference 23.[45]

The current methodology requires that volumes and workhours be aligned well by scheme. As seen in the past, large changes from year to year in the productivity values can cause an anomalous workshare relationship. In FY 2012, the cost avoidance for Standard Mail Automation Mixed AADC letters was calculated as

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[44] The Postal Service currently also tailors and takes additional preliminary screening measures for specific MODS operation codes that when aggregated to the month and operation group level, would not be accurate due to the inclusion of default workhours in the facility monthly operation group aggregate. These preliminary screening steps are shown in the ACR, Library Reference 23/Programs folder, in the 'modsprod.f' program. The Commission urges the Postal Service to test aggregation assumptions; *i.e.,* errors do cancel and would not influence the accuracy or the stability of the productivity estimate as facilities further consolidate.

[45] MODS USPS OIG Recommendations in the USPS OIG Management Operating Data System Audit Report, Report Number CRR-AR-12-002, December 12, 2011.

negative 0.3 cents.[46] The Postal Service reported this was a result of relatively large changes (between FY 2011 and FY 2012) in MODS operation group productivities. The Commission noted in its FY 2012 ACD that the 'MODS Group –Outgoing BCS (barcode sorter) Secondary' productivity had decreased substantially in a short period (from 10,103 pieces per hour in FY 2010 to 6,119 pieces per hour in FY 2012). The Commission urged the Postal Service to reduce errors in the underlying MODS data.[47]

In FY 2013, the outgoing BCS secondary productivity value increased from 6,119 pieces per hour in FY 2012 to 8,167 pieces per hour.[48] This productivity value change alone, in FY 2013, appeared to correct what had been an anomalous workshare relationship in FY 2012. The numeric impact[49] on the avoided cost model of this one large productivity increase in FY 2013 resulted in an avoided cost of +0.2 cents for the Standard Mail Automation Mixed AADC workshare level.[50]

Although the Postal Service's proposal appears reasonable, the very different resulting productivity values based on the consolidated data for some current operation groups, the period trend itself, and what appear to be daily errors in auto-credited volumes and misclocked workhours in the underlying data, may further mask MODS errors. For these reasons, the Commission does not approve the proposed consolidations for manual letter and manual flat operation groups into larger incoming and outgoing operation groups to calculate productivities.

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[46] United States Postal Service FY 2012 Annual Compliance Report at 21. Footnote 19 on this same page explains that this is a result of relatively large changes in the ISS productivities (increase) and the outgoing BCS Outgoing Secondary productivity (decrease).

[47] FY 2012 ACD at 202.

[48] *See* group 8-'Out BCS Secondary' productivity in Docket No. ACR2013, Library Reference USPS-FY13-23, 'Table' worksheet in the YRscrub2013.xlsx file.

[49] In theory, the discounted workshare level (STD LTRS Automation MAADC) mail processing costs should be less than its benchmark category (STD LTRS Non-Automation MAADC). The net effect of the substantially decreased outgoing BCS secondary productivity resulted in the mail processing costs being higher than its benchmark category in FY 2012. In FY 2013, this same (yet, substantially increased) productivity directly aligned the cost avoidance model results with the theoretical expectation.

[50] Docket No. ACR2013, Library Reference USPS-FY13-3, FY13.3.Worksharing Discount Table_Final.xls, 'Standard Mail Letters" worksheet, cell g12.

V.   PROPOSAL NINE: CHANGES CONCERNING IN-OFFICE COST SYSTEM ENCIRCLEMENT RULES

A.   Postal Service Proposal

Proposal Nine updates the IOCS encirclement rules for Delivery Confirmation. Delivery Confirmation is considered an Extra Service applicable to many mail products. The addition of Delivery Confirmation to a host mail product causes the host mail product to incur additional delivery costs. Rules are in place recognizing these additional costs so that the cost of handling the host product with the Extra Service is not entirely placed on the cost of delivering the host product. Encirclement is the process of allocating the cost of providing the Extra Service (Delivery Confirmation in this case) to the Extra Service, rather than to the host mailpiece.[51]

Beginning January 27, 2013, the Postal Service began offering free Delivery Confirmation to:

- Priority Mail (retail);
- Standard Post (retail);
- Parcel Select Lightweight; and
- First-Class Package Service.

Thus, the Postal Service is proposing to discontinue encirclement of Delivery Confirmation costs for these products. Consequently, the costs of Delivery Confirmation attributable to these products will now be assigned to the host product, and not to Delivery Confirmation. Petition Errata at 1.

B.   Participant Comments

The Public Representative supports Proposal Nine. However, he notes that the Postal Service did not provide any workpapers or IOCS cost assignment codes to detail how it plans to implement the proposal. The Public Representative suggests that the

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[51] 78 FR 69805 (November 21, 2013).

Commission ensure that the "calculations match the concept of the methodology."
Public Representative Comments at 15.

   C.   Commission Analysis

   Proposal Nine changes Delivery Confirmation encirclement rules in order to
assign Delivery Confirmation costs to the host product, rather than to the Delivery
Confirmation service.

   Beginning January 27, 2013, the Postal Service initiated free Delivery
Confirmation for several competitive products. Since the extra service is provided
without charge and is included as part of the service for the host piece, any costs
associated with the actions of clerks or carriers in the processing or delivery of the host
product with the free additional service, including the scanning of the mailpiece, should
be charged to the host product, not to the Extra Service.

   The Commission approves this proposal because the change will improve the
accuracy of costing for products with free Delivery Confirmation.

   As the Public Representative observes, there was no information provided as to
the cost effect on both Delivery Confirmation and the competitive products for which the
service is offered at no cost to the mailer. Every proposal requesting a change in
analytical principle should, where feasible, include an analysis that shows the effect of
the proposal on, in this case, costs for the affected products and the system as a
whole.[52] Regardless, the Commission was able to estimate the impact of the proposal.

   The FY 2013 Annual Compliance Report provides information on both revenues
and volumes of Delivery Confirmation through the Revenue Pieces and Weight (RPW)
report and the billing determinant data.[53] This can be used to estimate the impact of the

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[52] *See* 39 C.F.R. § 3050.11(b)(1).

[53] FY 2013 Annual Compliance Report, December 27, 2013 (FY 2013 ACR).

proposal on both Delivery Confirmation and the competitive products afforded the free service.

Table 6 describes Delivery Confirmation revenue, cost, and net contribution.

Table 6
Delivery Confirmation Revenue, Cost, and Net Contribution

		FY 2013 (A)	FY 2012 (B)	Difference (A) – (B)
1	Revenue	106,128,657	228,194,550	(122,065,893)
2	Expense	339,553,315	449,608,852	(110,055,536)
3	Less: Transfer of Expense to Base Product	(264,687,586)	(157,340,168)	(107,347,417)
4	Net Delivery Confirmation Expense (L2+L3)	74,865,730	292,268,684	(217,402,954)
5	Net Contribution (L1 - L4)	31,262,927	(64,074,134)	95,337,061

Source: Billing Determinants, Docket No. ACR2012, Library Reference USPS-FY12-4;
           Billing Determinants, Docket No. ACR2013, Library Reference USPS-FY13-4;
           Cost estimates, Docket No. ACR2012, Library Reference USPS-FY12-28 and Library Reference USPS-FY12-NP26;
           Cost estimates, Docket No. ACR2013, Library Reference USPS-FY13-28 and Library Reference USPS-FY13-NP26.

Billing determinant data show that total Delivery Confirmation revenues declined by $122 million in FY 2013, due to the expansion of free Delivery Confirmation. Total net costs for Delivery Confirmation (line 4) also declined by $217 million as a greater use of the less costly electronic version of Delivery Confirmation accounted for $110 million of the reduction.

Parcel Select and Standard Post were the primary contributors to the increase in the electronic version of Delivery Confirmation.[54] The remainder of the reduced Delivery Confirmation costs, $107 million, represents an increase in the costs that were transferred to the host products from the proposed change in the encirclement rules due to the extension of Delivery Confirmation service to additional products. The net

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[54] Electronic costs reflect transactions by customers who print and attach an electronic label, but submit their item(s) at the window. Manual costs represent all costs incurred through a window transaction, including the purchase of Delivery Confirmation.

contribution from Delivery Confirmation has improved as the negative contribution in FY 2012 is now positive.

It is ordered:

      For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposals Six, Seven, and Nine, as set forth in the body of this Order. The Commission partially accepts the changes in analytical principles proposed by the Postal Service in Proposal Eight, as set forth in the body of this Order.

By the Commission.

                                    Ruth Ann Abrams
                                    Acting Secretary